

# **P-CARD PURCHASING PROGRAM**

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**Audit Report No. PC0109**

**January 05, 2009**



**MENTAL HEALTH MENTAL RETARDATION  
AUTHORITY OF HARRIS COUNTY**

**Internal Audit Report**

**AUDITOR'S REPORT**

**P-Card Purchasing Program**

**Harris County, Texas**

**Internal Audit Report**

**January 05, 2009**

**Henry E. Webb, CFE**

**Internal Auditor**





Janaury 05, 2009

Steven B. Schnee, Ph.D.  
Executive Director  
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RE: Purchasing Card Activity – (Report No. PCO0109)

## **BACKGROUND**

The Mental Health and Mental Retardation Authority of Harris County (MHMRA) usage of the Purchasing Card (P-Card) began April 1, 2004 as a pilot program. The P-Card is an innovative product offered by JP Morgan Chase – Bank One in partnership with the State of Texas. The purpose of the Purchase Card Program (PCP) is to provide the Agency with an efficient and controllable method of making small dollar commodity purchases, and to reduce the cost of small dollar purchases. The card policy is not intended to replace, but rather supplement existing purchasing and other Agency policies. A senior buyer in the Purchasing Department acts as the Purchasing Card Program Coordinator to administer the program.

The goals of the program are to:

- Allow goods and services to be obtained faster and easier
- Reduce paperwork and processing time in the departments
- Enable employees to be more efficient, and to focus on the more value added aspects of their jobs
- Provide cost savings by consolidating payment to one vendor

The product offers purchase limits and reports/data not available with a traditional credit card. Cards are issued to employees who use them to purchase goods or services from any merchant that accepts MasterCard credit cards. Settlement is performed electronically, thereby eliminating the need to process supplier invoices and in turn draft checks to pay each supplier.

Each designated employee receives a P-Card. The card is embossed with their name and MHMRA of Harris County's name. The State of Texas is a custom card with the State Seal in the upper left corner and the verbiage "Tax Exempt" and "For Official Use Only."

As of October 2008, active P-Cards totals 55 for MHMRA employees. Each card has a designated single transaction limit and a monthly spending limit. The purchase of certain goods and services using the card is prohibited by use of Merchant Category Codes (MCC). The MCC is a four-digit code assigned to a merchant by its merchant bank. It identifies the type of business the merchant conducts. These codes are established by the credit card industry. When a merchant is set-up to accept MasterCard, its acquiring (merchant) bank assigns a MCC to the merchant.

MHMRA has limited cardholder purchases to certain merchant types by allowing (including) or disallowing (excluding) MCCs for each cardholder. Therefore, each time a merchant requests an authorization, the P-Card system checks the merchant’s code to ensure that the cardholder is allowed to purchase at that type of merchant. If the MCC is not an allowed MCC, the request will be declined.

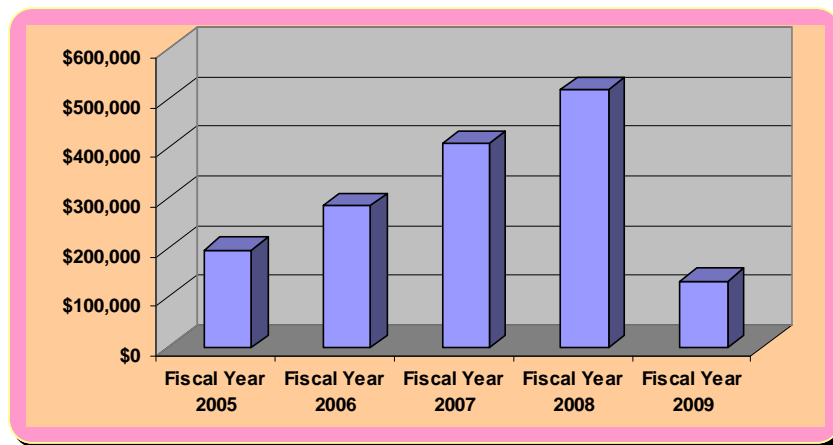
The MasterCard Coverage Liability Protection is limited to \$40,000 on a cardholder who is terminated from the organization. Other employees are not included in the coverage. JP Morgan Chase is responsible for all transactions made after a card has been reported lost/stolen. MHMRA is liable for all charges prior to the notification.

Each MHMRA employee that is issued a P-Card must attend mandatory training and sign a user agreement form. A purchase should not be used to bypass the Agency’s purchasing authorization and approval process.

**STATISTICS**

**Graph 1** presents total dollar amount of purchases for Fiscal Year 2005 through Fiscal Year 2009\*

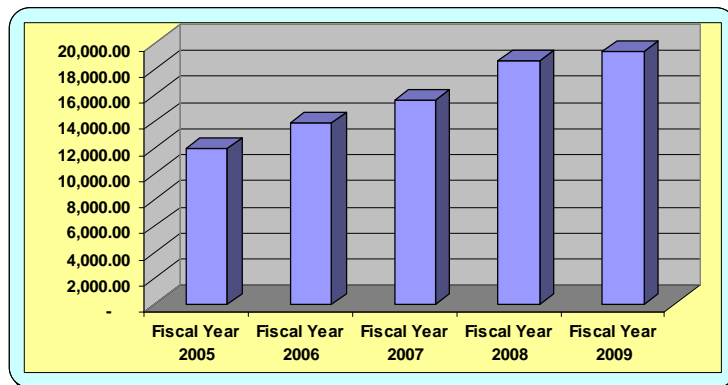
**Graph 1**  
**Total Dollar Activity**  
**Fiscal Year 2005 through Fiscal Year 2009\***



\*FY 09: September and October 2008 amounts only

**Graph 2** presents total dollar amount of Petty Cash Funds for Fiscal Year 2005 through Fiscal Year 2009\*

**Graph 2**  
**Total Dollar for Petty Cash**  
**Fiscal Year 2005 through Fiscal Year 2009\***



MHMRA participates in the P-Card Rebate Program which refunds a percentage of paid invoices to the purchaser. The P-Card program administrator is committed to exploring future possibilities to maximize use of the rebate program which may include payment of utility and office products through the rebate program.

**Table 1** represents the amount received from participation in the P-Card rebate program for Fiscal Year 2005 through Fiscal Year 2008.

**Table 1**  
**Total Rebate Amount**  
**Fiscal Year 2005 through Fiscal Year 2008**

Fiscal Year	Total Amount of Rebate
<i>Fiscal Year 2005</i>	\$ 1,577
<i>Fiscal Year 2006</i>	\$ 2,517
<i>Fiscal Year 2007</i>	\$ 3,963
<i>Fiscal Year 2008</i>	<u>\$ 5,390</u>
<b>TOTAL</b>	<b>\$13,447</b>

## OBJECTIVES

The overall objectives of the audit were to determine whether the department:

- Managed and used resources in an efficient, effective, and economical manner
- Administered funds in compliance with applicable laws, regulations, policies, and procedures
- Implemented internal controls to prevent or detect material errors and irregularities

The specific objectives in this audit were to:

- Determine if MHMRA policies and procedures adequately assured compliance with federal, state, and local laws.
- Determine if systems of internal controls implemented were adequate to assure that amounts calculated and paid were valid and appropriate.
- Evaluate management controls over the administration of the Purchase Card Program

## SCOPE

The scope of the work did not constitute an evaluation of the overall internal control structure of the unit. The examination was designed to evaluate and test compliance with established policy and procedures and to test the internal control over tested areas and material. The audit scope period was from September 1, 2007 through October 31, 2008.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policy and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are properly recorded.

Because of inherent limitations in any system of internal accounting control errors or irregularities may occur and not be detected in a timely manner. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help

management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

Internal Audit would like to thank management and staff for their cooperation throughout the audit.

## **METHODOLOGY**

In order to meet the objectives, Internal Audit flowcharted and evaluated controls related to the administration of the Purchasing Card Program, tested calculations, as well as reviewed policies and procedures for compliance and completeness. Facilities, Accounting, Purchasing, Residential Staff, and Contract Department personnel were interviewed and audit tests and procedures were conducted as considered necessary.

The sample size and selection were statistically generated using a desired confidence level of 95%, expected error rate of 5%, and a desired precision of +/-5%. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

## **SUMMARY OF PROCUREMENT CARD REVIEW**

### **Areas Covered Under Objective/Scope**

- Policies and Procedures
- Training
- Card Issuing
- Card Use
- Card Deactivation
- System Administration
- Business Administration

## **STATEMENT OF AUDITING STANDARDS**

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to afford a reasonable basis for the judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. An audit also includes assessing the estimates, judgments, and decisions made by Agency management. It is believed that this audit provides a reasonable basis for the findings, conclusions, and recommendations.

## **RESULTS**

As a result of the audit procedures and interviews conducted, it was determined that departmental compliance with established criteria to adequately administer the Purchasing Card Program generally meets Agency requirements. However, there were areas that were noted that needed improvement over internal controls. Those areas are discussed below.

**FINDING*****Policy to Address Uniform Purchases***

Currently, MHMRA of Harris County does not have a consistent policy that addresses the purchase of “uniforms” or shirts (Polo style) for Agency staff. It was observed that four methods are being used when making such purchases.

- Total purchases are made on P-Card (Agency paid)
- Payment made by staff members up front and Agency purchases (Employee paid)
- Requisition is processed through the Accounts Payable Department (Agency paid)
- Total purchases are made on P-Card to be reimbursed by staff (Agency paid / risk of non payment)

**Recommendation**

- It is recommended that Agency Management reevaluate the practice of purchasing shirts for employees as to whether these items are used to benefit taxpayers.
- It is recommended that if Agency Management desires to continue purchasing shirts for particular units, that the Agency adopt a uniform and consistent method for determining which units are eligible.

**Management Response**

*“We acknowledge the Auditor’s recommendation that Agency Management reevaluate the practice of purchasing shirts for employees. Until a Policy & Procedure is adopted, the P-Card Administrator will notify all P-Card Supervisors that the P-Card will not be used for the purchase of uniforms or shirts and will monitor the P-Card reports monthly for misuse.”*

**FINDING*****Petty Cash Use***

One of the selling points of using the P-Card is the anticipation that the use of Petty Cash funds would decrease. After review of the Petty Cash Funds, it was determined that the funds have experienced a yearly increase since the pilot program for the P-Card program.

It was further determined that out of the 56 Agency Petty Cash funds, only 18% of the Petty Cash Custodians and 16% of the Supervisors of the Custodians had been issued a P-Card (see **Graph 2**).

**RECOMMENDATION**

- It is recommended that the P-Card Administrator continue to work with the Units’ Petty Cash custodians and supervisors to identify efficiencies by use of the P-Card over Petty Cash.

**Management Response**

*“The P-Card Administrator will continue to work with Petty Cash Custodians and Supervisors to identify additional P-Card efficiencies. It should be emphasized however, that the P-Card cannot fully displace petty cash funds. For instance, we cannot use P-Cards to reimburse consumers and staff.”*

-S-

Henry E. Webb

CC: Rose Childs, MSW, CSWM, Deputy Director, Mental Health Division  
Kenneth Collins, LMSW, Deputy Director, Mental Retardation Division  
Barbara Dawson, MSE, Deputy Director, Comprehensive Psychiatric Emergency Program Division  
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**ATTACHMENT A**  
**SUMMARY OF RECOMMENDATIONS**  
**January 5, 2009**

Unit: Purchasing Area: P-Card Program		
Inherent Risk:      Low Moderate <b>High</b>	Control Environment:    Well Controlled Acceptable <b>Poorly Controlled</b>	Overall Risk:      Low Moderate <b>High</b>
Type of Procedures: <b>Audit</b>		
Scope: <ul style="list-style-type: none"> <li>* Using Internal Control Evaluation (ICEs) forms, documented the internal controls</li> <li>* Conducted a preliminary survey reviewing applicable policies and procedures, etc.</li> <li>* Interviewed various staff to obtain understanding of management controls</li> <li>* Examined detailed invoices/work orders, statements provided by the vendor, etc.</li> </ul>		
Priority Rating:	Audit Recommendations:	
1	Adopt Policy & Procedure Agency-wide to address purchases of shirts/uniforms	
1	Continue to explore use of P-Card over Petty Cash with Unit staff	
Follow-up: Six Months		

**Priority Rating**

1. Implement immediately (30 - 90 days) - Serious internal control deficiencies; or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.
2. Work towards implementing (6 - 18 months) - Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the unit (i.e. Budgetary, technological constraints, etc.).
3. Implement in the future (2-3 years) - Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e. legislative changes, buy and install major systems, or require third party cooperation, etc.).